

CITY OF MARQUETTE
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS

June 30, 2007

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CITY OF MARQUETTE

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|-----------------|-----------------------|
| John Ries | Mayor | Jan. 2008 |
| Norma Mason | Mayor Pro tem | Jan. 2008 |
| Norb Hammes | Council Member | Jan. 2008 |
| Tracy Melver | Council Member | Jan. 2010 |
| Mary Jo Pirc | Council Member | Jan. 2010 |
| Darren Matthew | Council Member | Jan. 2010 |
| Maryanne Trudo | Clerk/Treasurer | Indefinite |
| Michael Puksich | City Manager | Resigned Feb. 8, 2007 |
| James Garrett | City Attorney | Indefinite |

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Marquette, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Marquette's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Marquette as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2007 on our consideration of the City of Marquette's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 6 through 12 and 25 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Marquette's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Elkader, Iowa 52043

November 2, 2007

Dietz, Donald & Company
Dietz, Donald and Company, CPAs
FEIN 42-1172392

CITY OF MARQUETTE

88 North Street, PO Box 7

Marquette, IA 52158

Phone: 563-873-3735 ~ Fax: 563-873-2122

marqcity@alpinecom.net

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Marquette provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

Revenues of the City's governmental activities had a negligible decrease of approximately \$ 2,000 from fiscal 2006 to fiscal 2007. Tax increment financing collections and unrestricted interest on investments increased by \$ 22,000 and \$ 50,000 respectively. However this was more than offset by a \$ 153,000 decrease in gaming wager tax receipts.

Disbursements and transfers of the City's governmental activities increased 71.7%, or approximately \$ 1.266 million, in fiscal 2007 from fiscal 2006. Capital projects disbursements increased approximately \$ 1.289 million.

The City's total cash basis net assets decreased 28.6%, or approximately \$ 1.037 million, from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased approximately \$ 1.070 million and the assets of the business type activities increased by approximately \$ 33,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statements by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases and decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax, state and federal grants, and gaming revenues finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment and 3) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the water and sewer funds.

The required financial statements for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased sharply from a year ago, decreasing from \$ 3.615 million to \$ 2.546 million. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities
(Expressed in Thousands)

| | <u>Year ended June 30,</u> | |
|-------------------------------------------------------------|----------------------------|--------------|
| | <u>2007</u> | <u>2006</u> |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 233 | 217 |
| Operating grants, contributions, and restricted interest | 40 | 40 |
| General receipts: | | |
| Property tax | 428 | 405 |
| Local option sales tax | 29 | 25 |
| Gaming wager tax | 1,034 | 1,187 |
| Sale of assets | 42 | 0 |
| Unrestricted investment earnings | 130 | 80 |
| Other general receipts | 25 | 9 |
| Total receipts | <u>1,961</u> | <u>1,963</u> |
| Disbursements and transfers: | | |
| Public safety | 150 | 148 |
| Public works | 160 | 175 |
| Health and social services | 0 | 0 |
| Culture and recreation | 57 | 72 |
| Community and economic development | 10 | 1 |
| General government | 193 | 186 |
| Debt service | 303 | 315 |
| Capital projects | 2,138 | 849 |
| Transfers, net | 20 | 20 |
| Total disbursements and transfers | <u>3,031</u> | <u>1,766</u> |
| Increase (decrease) in cash basis net assets | (1,070) | 197 |
| Cash basis net assets beginning of year | <u>3,615</u> | <u>3,418</u> |
| Cash basis net assets end of year | <u>\$ 2,545</u> | <u>3,615</u> |

The City's total receipts for governmental activities decreased \$ 2,000. The total cost of all programs and services increased by approximately \$ 1.266 million or 71.7%. This significant increase in disbursements was due to \$ 1.296 million more being spent on the Pleasant Ridge

Subdivision in 2007 than in 2006.

The cost of all governmental activities this year was \$ 3.011 million compared to \$ 1.746 million last year. However, as shown in the Statement of Activities and Net Assets on page 14, the amount taxpayers ultimately financed for these activities was only \$ 2.738 million because some of the cost was paid by those directly benefited from the programs (\$ 233,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$ 40,000). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for service, increased in 2007 from approximately \$ 257,000 to approximately \$ 273,000. The City paid the remaining "public benefit" portion of governmental activities with approximately \$ 457,000 in tax (some of which could only be used for certain programs) and with other receipts, such as interest (\$ 130,000) and gaming wager revenues (\$ 1.034 million).

Changes in Cash Basis Net Assets of Business Type Activities
(Expressed in Thousands)

| | <u>Year ended June 30,</u> | |
|-----------------------------------------|----------------------------|-------------|
| | <u>2007</u> | <u>2006</u> |
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 84 | 70 |
| Sewer | 78 | 62 |
| Sale of equipment | 0 | 1 |
| Transfers | 20 | 20 |
| Total receipts and transfers | <u>182</u> | <u>153</u> |
| Disbursements: | | |
| Water | 67 | 70 |
| Sewer | 82 | 80 |
| Total disbursements | <u>149</u> | <u>150</u> |
| Increase in cash balance | 33 | 3 |
| Cash basis net assets beginning of year | <u>15</u> | <u>12</u> |
| Cash basis net assets end of year | <u>\$ 48</u> | <u>15</u> |

Total business type activities receipts and transfers for the fiscal year were \$ 182,000 compared to \$ 153,000 last year. The cash balance increased by approximately \$ 33,000 from the prior year. Total

disbursements for the fiscal year decreased by 1.0% to a total of \$ 149,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Marquette completed the year, its governmental funds reported a combined fund balance of \$ 2,545,573, a decrease of \$ 1,069,781 below last year's total of \$ 3,615,354. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$ 1,093,298 from the prior year to \$ 2,504,927. The General Fund transferred \$ 2,120,000 to various capital projects funds. Of this amount, \$ 1,310,266 was transferred to the Pleasant Ridge Capital Projects Fund.

TIF revenues were used as follows: \$ 303,413 for debt service and \$ 98,000 in transfers to the General Fund as a payment on an interfund loan. This leaves the Special Revenue; Urban Renewal Tax Increment Fund with a balance of \$ 8,459 at June 30, 2007.

The Capital Projects, Pleasant Ridge Fund, disbursed \$ 1,340,230 during the current fiscal year.

The Capital Projects, Waterwell/Reservoir Fund, disbursed \$ 630,598 during the current fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 22, 2007 and resulted in an increase of \$ 82,078 in budgeted disbursements, a result of additional capital disbursements on the Pleasant Ridge Project.

The City's receipts were \$ 47,848 more than budgeted. This was primarily due to the City receiving more in sewer and water charges for service than anticipated, even after the amendment.

DEBT ADMINISTRATION

At June 30, 2007, the City had no long-term debt, \$ 295,000 less than last year, as shown below.

| Outstanding Debt at Year-End (Expressed in Thousands) | | |
|----------------------------------------------------------|----------|------|
| | June 30, | |
| | 2007 | 2006 |
| | \$ | |
| General obligation notes | 0 | 295 |

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's constitutional debt limit is \$ 935,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Marquette's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates, and fees that will be charged for various City activities. One of those factors is revenue from the gaming boat. Total gaming boat revenues for the years ended June 30, 2007, 2006, and 2005 were \$ 1.214 million, \$ 1.367 million, and \$ 1.389 million respectively. New gaming facilities in Iowa could continue to put downward pressure on these receipts.

Inflation in the State continues to be somewhat lower than the national Consumer Price Index increase. The State's CPI increase was 3.2 percent for fiscal year 2006 compared with the national rate of 3.4 percent. Inflation has been modest here due in part to the slowing of the residential housing market and increases in energy prices in 2007.

These indicators were taken into account when adopting the budget for fiscal year 2008. Amounts available for appropriation in the operating budget are \$ 1.7 million, a decrease of 14% under the final 2007 budget. Budgeted disbursements are expected to decrease by approximately \$ 1.7 million. The City has added no major new programs or initiatives to the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to decrease by approximately \$ 22,000 by the close of 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Maryanne Trudo, City Clerk, 88 North Street, Marquette, Iowa.

Basic Financial Statements

Exhibit A

CITY OF MARQUETTE
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
As of and for the Year Ended June 30, 2007

| FUNCTIONS/PROGRAMS: | Disbursements | Charges for Service | Program Receipts Operating Grants, Contributions and Restricted Interest | Net (Disbursements) Receipts and Changes in Cash Basis Net Assets | | |
|-----------------------------------------|---------------|---------------------|--------------------------------------------------------------------------------------|----------------------------------------------------------------------|-----------------------------|-------------|
| | | | | Governmental Activities | Business Type Activities | Total |
| Governmental activities: | | | | | | |
| Public safety | \$ 149,857 | 84,029 | 0 | (65,828) | 0 | (65,828) |
| Public works | 159,772 | 25,877 | 39,624 | (94,271) | 0 | (94,271) |
| Health and social services | 300 | 0 | 0 | (300) | 0 | (300) |
| Culture and recreation | 57,013 | 122,528 | 0 | 65,515 | 0 | 65,515 |
| Community and economic development | 10,000 | 0 | 0 | (10,000) | 0 | (10,000) |
| General government | 192,818 | 825 | 0 | (191,993) | 0 | (191,993) |
| Debt service | 303,413 | 0 | 0 | (303,413) | 0 | (303,413) |
| Capital projects | 2,137,519 | 0 | 0 | (2,137,519) | 0 | (2,137,519) |
| Total governmental activities | 3,010,692 | 233,259 | 39,624 | (2,737,809) | 0 | (2,737,809) |
| Business type activities: | | | | | | |
| Water | 67,155 | 83,786 | 0 | 0 | 16,631 | 16,631 |
| Sewer | 81,658 | 78,054 | 0 | 0 | (3,604) | (3,604) |
| Total business type activities | 148,813 | 161,840 | 0 | 0 | 13,027 | 13,027 |
| Total | \$ 3,159,505 | 395,099 | 39,624 | (2,737,809) | 13,027 | (2,724,782) |
| GENERAL RECEIPTS | | | | | | |
| Property tax levied for: | | | | | | |
| General purposes | | | | 22,550 | 0 | 22,550 |
| Tax increment financing | | | | 405,772 | 0 | 405,772 |
| Local option sales tax | | | | 28,417 | 0 | 28,417 |
| Gaming wager tax | | | | 1,033,714 | 0 | 1,033,714 |
| Unrestricted interest on investments | | | | 130,064 | 0 | 130,064 |
| Miscellaneous | | | | 25,098 | 111 | 25,209 |
| Sale of assets | | | | 42,413 | 0 | 42,413 |
| Transfers | | | | (20,000) | 20,000 | 0 |
| Total general receipts and transfers | | | | 1,668,028 | 20,111 | 1,688,139 |
| Change in cash basis net assets | | | | (1,069,781) | 33,138 | (1,036,643) |
| Cash basis net assets beginning of year | | | | 3,615,354 | 15,449 | 3,630,803 |
| Cash basis net assets end of year | | | | \$ 2,545,573 | 48,587 | 2,594,160 |
| CASH BASIS NET ASSETS: | | | | | | |
| Restricted: | | | | | | |
| Overpass demolition | | | | \$ 100,000 | 0 | 100,000 |
| Streets | | | | 9,981 | 0 | 9,981 |
| Urban renewal purposes | | | | 8,459 | 0 | 8,459 |
| Unrestricted | | | | 2,427,133 | 48,587 | 2,475,720 |
| Total cash basis net assets | | | | \$ 2,545,573 | 48,587 | 2,594,160 |

See notes to financial statements.

Exhibit B

CITY OF MARQUETTE
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2007

| | General | Special Revenue Urban Renewal Tax Increment | Capital Projects Waterwell/ Reservoir | Pleasant Ridge | Other Normal Governmental Funds | Total |
|-------------------------------------------------------------------|---------------------|---------------------------------------------------------|---------------------------------------------|--------------------|------------------------------------------|--------------------|
| Receipts: | | | | | | |
| Property tax | \$ 22,550 | 0 | 0 | 0 | 0 | 22,550 |
| Tax increment financing collections | 0 | 405,772 | 0 | 0 | 0 | 405,772 |
| Other city tax | 1,062,131 | 0 | 0 | 0 | 0 | 1,062,131 |
| Licenses and permits | 715 | 0 | 0 | 0 | 0 | 715 |
| Use of money and property | 333,943 | 0 | 0 | 0 | 0 | 333,943 |
| Intergovernmental | 3,896 | 0 | 0 | 0 | 0 | 3,896 |
| Charges for service | 25,887 | 0 | 0 | 0 | 0 | 25,887 |
| Miscellaneous | 8,651 | 0 | 0 | 0 | 19,225 | 27,876 |
| Total receipts | 1,457,773 | 405,772 | 0 | 0 | 54,953 | 1,918,498 |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public safety | 149,857 | 0 | 0 | 0 | 0 | 149,857 |
| Public works | 120,996 | 0 | 0 | 0 | 38,776 | 159,772 |
| Health and social services | 300 | 0 | 0 | 0 | 0 | 300 |
| Culture and recreation | 57,013 | 0 | 0 | 0 | 0 | 57,013 |
| Community and economic development | 10,000 | 0 | 0 | 0 | 0 | 10,000 |
| General government | 192,818 | 0 | 0 | 0 | 0 | 192,818 |
| Debt service | 0 | 303,413 | 0 | 0 | 0 | 303,413 |
| Capital projects | 530,984 | 303,413 | 630,598 | 1,340,230 | 166,691 | 2,137,519 |
| Total disbursements | 926,789 | 102,359 | (630,598) | (1,340,230) | (150,514) | (1,092,194) |
| Excess (deficiency) of receipts over (under) disbursements | 530,984 | 303,413 | 630,598 | 1,340,230 | 205,467 | 3,010,692 |
| Other financial sources (uses) | | | | | | |
| Sale of capital assets | 1,913 | 0 | 0 | 40,500 | 0 | 42,413 |
| Operating transfers in | 98,000 | 0 | 630,598 | 1,310,266 | 159,136 | 2,198,000 |
| Operating transfers out | (2,120,000) | (98,000) | 0 | 0 | (2,218,000) | (2,416,000) |
| Total other financial sources (uses) | (2,020,087) | (98,000) | 630,598 | 1,350,766 | 159,136 | 22,413 |
| Net change in cash balances | (1,093,298) | 4,359 | 0 | 10,536 | 8,622 | (1,069,781) |
| Cash balances beginning of year | 3,598,225 | 4,100 | 0 | 0 | 13,029 | 3,615,354 |
| Cash balances end of year | \$ 2,504,927 | 8,459 | 0 | 10,536 | 21,651 | 2,545,573 |
| Cash Basis Fund Balances | | | | | | |
| Reserved for overpass demolition | \$ 100,000 | 0 | 0 | 0 | 0 | 100,000 |
| Unreserved: | | | | | | |
| General fund | 2,404,927 | 0 | 0 | 0 | 0 | 2,404,927 |
| Special revenue funds | 0 | 8,459 | 0 | 0 | 9,981 | 18,440 |
| Capital projects fund | 0 | 0 | 0 | 10,536 | 11,670 | 22,206 |
| Total cash basis fund balances | \$ 2,504,927 | 8,459 | 0 | 10,536 | 21,651 | 2,545,573 |

See notes to financial statements.

CITY OF MARQUETTE
 STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 PROPRIETARY FUNDS
 As of and for the Year Ended June 30, 2007

| | Nonmajor Proprietary Funds |
|-----------------------------------------------------------|----------------------------------|
| Operating receipts: | |
| Charges for service | \$ 161,840 |
| Operating disbursements: | |
| Business type activities | <u>148,813</u> |
| Excess of operating receipts over operating disbursements | <u>13,027</u> |
| Non-operating receipts: | |
| Miscellaneous | 111 |
| Operating transfers in | <u>20,000</u> |
| Total non-operating receipts | <u>20,111</u> |
| Net change in cash balance | 33,138 |
| Cash balance beginning of year | <u>15,449</u> |
| Cash balance end of year | <u><u>\$ 48,587</u></u> |

See notes to financial statements.

CITY OF MARQUETTE
Notes to Financial Statements
June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Marquette is a political subdivision of the State of Iowa located in Clayton County. It was first incorporated in 1860 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Marquette has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City. City officials are members of the following boards and commissions and organizations: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission, Clayton County Joint E911 Service Board and the Mar-Mac Unified Law Enforcement District. As described in note 8, the City's participation in the Mar-Mac Unified Law Enforcement District meets the criteria of a joint venture since there is an ongoing financial responsibility for the City.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net assets are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds. All enterprise funds are aggregated and reported as nonmajor proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

Capital Projects:

The Waterwell/Reservoir Fund is used to account for disbursements on the waterwell/reservoir project.

The Pleasant Ridge Fund is used to account for disbursements in connection with the Pleasant Ridge Subdivision.

The City has no major proprietary funds.

C. Measurement Focus and Basis of Accounting

The City of Marquette maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

(2) Cash and Pooled Investments

The City deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This Chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain

registered openend management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipts) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but maturities shall be consistent with the needs and use of the City. At June 30, 2007 the City had \$ 2,289,325 invested in certificates of deposit with maturities ranging from 27 to 327 days.

(3) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to: IPERS; P.O. Box 9117; Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$ 9,172, \$ 7,970 and \$ 8,379, respectively, equal to the required contribution for each year.

(4) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement, or death.

These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows;

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|------------------|
| Vacation | \$ 7,000 |
| Sick pay | <u>3,000</u> |
| Total | <u>\$ 10,000</u> |

This liability has been computed based on rates of pay as of June 30, 2007.

(5) Risk Management

The City of Marquette is exposed to various risks of loss related to torts, thefts, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims for these risks exceeded commercial insurance coverage by \$ 32,000 in 2004. The City received approximately \$ 26,000 in public assistance grants to defray the cost of the Mississippi River and Bloody Run floods.

(6) Excursion Gambling Boat Dock Site Lease Agreement

On June 10, 1994, the City entered into a dock site lease agreement with a Company to operate and manage casino gambling on excursion gambling boats and related activities in and about the City of Marquette. The dock site lease agreement provided docking facilities for a twenty five year term beginning June 10, 1994. The agreement provides that the Company pay the City (a) \$ 105,000 per year payable in equal monthly installments; (b) twenty five cents per ticketed passenger payable monthly; (c) two and one-half percent of the net gambling receipts in excess of \$ 10,000,000 per year; and (d) fifty cents per passenger admission pursuant to Chapter 99F.10 of the Code of Iowa and the City ordinance for dock site rental. Additionally, the City provides 24 hour public safety protection for \$ 75,000 per year payable monthly.

(7) Joint Venture

The City participates in a joint law enforcement district known as Mar-Mac Unified Law Enforcement District, which provides police protection and law enforcement services to its participants. The District was created and operates under Chapter 28E of the Code of Iowa. The District is governed by a five member board, two of whom are appointed by the Mayor of Marquette subject to approval by a majority vote of the City Council. In accordance with the 28E Agreement creating the District, the City shall appropriate and pay to the District each fiscal year a sum equal to 65% of the District's budget for the year. The City shall pay to the District one-fourth of the City's share of the budget amount on or before July 10, October 10, January 10, and April 10 each year. The City's share of the District's budget for the fiscal year ended June 30, 2007, was \$ 136,698. The City's share of the District's budget for the fiscal year ended June 30, 2008 shall be approximately \$ 153,000. The Mar-Mac Unified Law Enforcement District issues a publicly available financial report that includes financial statements and required supplementary information. The

report may be obtained by writing to: MarMac Police District;
P.O. Box 340; McGregor, Iowa 52157-0340.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

| Transfer to | Transfers from | Amount |
|---------------------|---------------------------------------------------|---------------------|
| General | Special Revenue Urban Renewal Tax Increment | <u>\$ 98,000</u> |
| Capital Projects: | | |
| Waterwell/Reservoir | General | <u>630,598</u> |
| Pleasant Ridge | General | <u>1,310,266</u> |
| Streets | General | <u>131,882</u> |
| Eagle Crest | General | <u>20,823</u> |
| Roundhouse Project | General | <u>6,431</u> |
| Enterprise: | | |
| Sewer | General | <u>20,000</u> |
| Total | | <u>\$ 2,218,000</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(9) Subsequent Events

In July, August and September, 2007 the City awarded additional construction contracts of \$ 161,966 for various projects in the City. These projects will be financed with tax increment cash balances on hand at June 30, 2007.

(10) Significant Concentration of Credit Risk

Receipts from one business comprised approximately 58% of the City's total receipts for the fiscal year ended June 30, 2007.

Required Supplementary Information

CITY OF MARQUETTE
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS AND CHANGES IN BALANCES
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
Year Ended June 30, 2007

| | Governmental Funds Actual | Proprietary Funds Actual | Total | Budgeted Amounts | | Final to Total Variance |
|------------------------------------------------------------------------------------------------------------------------|---------------------------------|--------------------------------|--------------------|--------------------|--------------------|-------------------------------|
| | | | | Original | Final | |
| Receipts: | | | | | | |
| Property tax | \$ 22,550 | 0 | 22,550 | 19,848 | 19,848 | 2,702 |
| Tax increment financing collections | 405,772 | 0 | 405,772 | 394,717 | 394,717 | 11,055 |
| Other city tax | 1,062,131 | 0 | 1,062,131 | 1,180,736 | 1,104,736 | (42,605) |
| Licenses and permits | 715 | 0 | 715 | 1,540 | 1,000 | (285) |
| Use of money and property | 333,943 | 0 | 333,943 | 288,960 | 318,960 | 14,983 |
| Intergovernmental | 39,624 | 0 | 39,624 | 238,000 | 38,000 | 1,624 |
| Charges for service | 25,887 | 161,840 | 187,727 | 179,650 | 153,650 | 34,077 |
| Miscellaneous | 27,876 | 111 | 27,987 | 1,690 | 1,690 | 26,297 |
| Total receipts | 1,918,498 | 161,951 | 2,080,449 | 2,285,141 | 2,032,601 | 47,848 |
| Disbursements: | | | | | | |
| Public safety | 149,857 | 0 | 149,857 | 202,030 | 198,020 | 48,163 |
| Public works | 159,772 | 0 | 159,772 | 175,000 | 178,293 | 18,521 |
| Health and social services | 300 | 0 | 300 | 2,070 | 2,070 | 1,770 |
| Culture and recreation | 57,013 | 0 | 57,013 | 104,520 | 89,965 | 32,952 |
| Community and economic development | 10,000 | 0 | 10,000 | 10,635 | 10,635 | 635 |
| General government | 192,818 | 0 | 192,818 | 296,550 | 235,900 | 43,082 |
| Debt service | 303,413 | 0 | 303,413 | 303,413 | 303,413 | 0 |
| Capital projects | 2,137,519 | 0 | 2,137,519 | 2,042,000 | 2,200,000 | 62,481 |
| Business type activities | 0 | 148,813 | 148,813 | 240,270 | 240,270 | 91,457 |
| Total disbursements | 3,010,692 | 148,813 | 3,159,505 | 3,376,488 | 3,458,566 | 299,061 |
| Excess (deficiency) of receipts over (under) disbursements | (1,092,194) | 13,138 | (1,079,056) | (1,091,347) | (1,425,965) | 346,909 |
| Other financing sources net | 22,413 | 20,000 | 42,413 | 0 | (298,160) | 340,573 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (1,069,781) | 33,138 | (1,036,643) | (1,091,347) | (1,724,125) | 687,482 |
| Balances beginning of year | 3,615,354 | 15,449 | 3,630,803 | 3,402,461 | 3,630,803 | 0 |
| Balances end of year | \$ 2,545,573 | 48,587 | 2,594,160 | 2,311,114 | 1,906,678 | 687,482 |

See accompanying independent auditor's report.

CITY OF MARQUETTE

Notes to Required Supplementary Information - Budgetary Reporting

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$ 82,078. The budget amendment is reflected in the final budgeted amounts.

Other Supplementary Information

Schedule 1

CITY OF MARQUETTE
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 As of and for the Year Ended June 30, 2007

| | Special Revenue | Capital Projects | | | | |
|------------------------------------------------------------------|--------------------|------------------|-----------|----------------|-----------------------|-----------|
| | Road Use Tax | Buildings | Streets | Eagle Crest | Roundhouse Project | Total |
| Receipts: | | | | | | |
| Intergovernmental | \$ 35,728 | 0 | 0 | 0 | 0 | 35,728 |
| Miscellaneous | 0 | 17,630 | 1,595 | 0 | 0 | 19,225 |
| Total receipts | 35,728 | 17,630 | 1,595 | 0 | 0 | 54,953 |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public works | 38,776 | 0 | 0 | 0 | 0 | 38,776 |
| Capital projects | 0 | 5,960 | 133,477 | 20,823 | 6,431 | 166,691 |
| Total disbursements | 38,776 | 5,960 | 133,477 | 20,823 | 6,431 | 205,467 |
| Excess (deficiency) of receipts over (under) disbursements | (3,048) | 11,670 | (131,882) | (20,823) | (6,431) | (150,514) |
| Other financing sources: | | | | | | |
| Operating transfers in | 0 | 0 | 131,882 | 20,823 | 6,431 | 159,136 |
| Net change in cash balances | (3,048) | 11,670 | 0 | 0 | 0 | 8,622 |
| Cash balances beginning of year | 13,029 | 0 | 0 | 0 | 0 | 13,029 |
| Cash balances end of year | \$ 9,981 | 11,670 | 0 | 0 | 0 | 21,651 |

See accompanying independent auditor's report.

CITY OF MARQUETTE
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
 AND CHANGES IN CASH BALANCES
 As of and for the Year Ended June 30, 2007

| | Enterprise Funds | | |
|--------------------------------------------------------------------------------|------------------|---------|---------|
| | Water | Sewer | Total |
| Operating receipts: | | | |
| Charges for service | \$ 83,786 | 78,054 | 161,840 |
| Operating disbursements: | | | |
| Business type activities | 67,155 | 81,658 | 148,813 |
| Excess (deficiency) of operating receipts over (under) operating disbursements | 16,631 | (3,604) | 13,027 |
| Non-operating receipts: | | | |
| Miscellaneous | 111 | 0 | 111 |
| Operating transfers in | 0 | 20,000 | 20,000 |
| Total non-operating receipts | 111 | 20,000 | 20,111 |
| Net changes in cash balances | 16,742 | 16,396 | 33,138 |
| Cash balances beginning of year | 7,111 | 8,338 | 15,449 |
| Cash balances end of year | \$ 23,853 | 24,734 | 48,587 |

See accompanying independent auditor's report.

Schedule 3

CITY OF MARQUETTE
STATEMENT OF INDEBTEDNESS
Year Ended June 30, 2007

| Description | Date of Issue | Interest Rates | Amount Originally Issued | Balance Beginning of Year | Issued During Year | Redeamed During Year | Balance End of Year | Interest Paid |
|------------------------------------------------------|------------------|-------------------|--------------------------------|---------------------------------|--------------------------|----------------------------|---------------------------|------------------|
| General obligation notes: Downtown revitalization | Mar 1, 2003 | 2.75% | \$ 835,000 | 295,000 | 0 | 295,000 | 0 | 8,113 |

See accompanying independent auditor's report.

CITY OF MARQUETTE
 SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION
 ALL GOVERNMENTAL FUNDS
 For the Last Four Years

| | 2007 | 2006 | 2005 | 2004 |
|------------------------------------|---------------------|------------------|------------------|------------------|
| Receipts: | | | | |
| Property tax | \$ 22,550 | 20,967 | 10,102 | 39,417 |
| Tax increment financing | 405,772 | 384,135 | 430,377 | 264,392 |
| Other city tax | 1,062,131 | 1,212,068 | 1,232,376 | 1,245,022 |
| Licenses and permits | 715 | 2,145 | 2,180 | 2,198 |
| Use of money and property | 333,943 | 268,900 | 255,990 | 251,337 |
| Intergovernmental | 39,624 | 39,850 | 114,698 | 82,907 |
| Charges for service | 25,887 | 24,588 | 25,108 | 25,176 |
| Miscellaneous | 27,876 | 10,333 | 24,485 | 58,858 |
| Total | \$ 1,918,498 | 1,962,986 | 2,095,316 | 1,969,307 |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$ 149,857 | 147,682 | 140,173 | 137,888 |
| Public works | 159,772 | 174,498 | 162,829 | 115,346 |
| Health and social services | 300 | 316 | 1,053 | 1,053 |
| Culture and recreation | 57,013 | 72,257 | 65,722 | 63,928 |
| Community and economic development | 10,000 | 632 | 831 | 10,526 |
| General government | 192,818 | 185,976 | 163,021 | 171,283 |
| Debt service | 303,413 | 315,095 | 301,538 | 0 |
| Capital projects | 2,137,519 | 848,681 | 484,750 | 1,553,156 |
| Total | \$ 3,010,692 | 1,745,137 | 1,319,917 | 2,053,180 |

See accompanying independent auditor's report.

Dietz, Donald & Company

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN S. CLAUSEN, CPA

124A Main • P.O. Box 359

Elkader, Iowa 52043

(563) 245-2154 • (800) 310-2154

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Marquette, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated November 2, 2007. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the City of Marquette's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Marquette's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Marquette's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent and detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the City of Marquette's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Marquette's financial statements that is more than inconsequential will not be prevented or detected by the City of Marquette's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City of Marquette's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Marquette's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 20, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Marquette and other parties to whom the City of Marquette may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Marquette during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Elkader, Iowa

November 2, 2007

Dietz, Donald & Company
Dietz, Donald & Company, CPAS
FEIN 42-1172392 32

CITY OF MARQUETTE
SCHEDULE OF FINDINGS
Year Ended June 30, 2007

Findings Related to Required Statutory Reporting

1. **Certified Budget** - Disbursements for the year ended June 30, 2007 did not exceed the amounts budgeted.
2. **Questionable Disbursements** - We noted no disbursements for parties, banquets, or other entertainment for employees that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.
3. **Travel Expense** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
4. **Business Transaction** - No business transactions between City and City officials or employees were noted.
5. **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
6. **Council Minutes** - No transactions were found that we believe should have been approved in the Council minutes but were not.
7. **Deposits and Investments** - No instances on non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.